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ALLIED STORES

CORPORATION

1959

ANNUAL REPORT



NATIONAL IN SCOPE

ALLIED STORES CORPORATION

401 FIFTH AVENUE

NEW YORK 16, NEW YORK

1959 ANNUAL REPORT

With profound sorrow, we report the death on August 25, 1959, of Mr. Albert Coons, who was associated with the Company since its inception in 1929. Mr. Coons was managing director of one of the Company's stores until 1933, at which time he became a Vice-President and director of the Company.

STORES OWNED BY ALLIED

POLSKY'S	<i>Akron and Canton, Ohio</i>
JORDAN MARSH	<i>Boston, Peabody, Framingham and Malden, Mass.</i>
BON MARCHÉ	<i>Bellingham, Wash.</i>
READ'S	<i>Bridgeport, Conn.</i>
ROLLMAN'S	<i>Cincinnati and Swifton, Ohio</i>
STERLING-LINDNER	<i>Cleveland, Ohio</i>
MOREHOUSE-FASHION	<i>Columbus, Ohio</i>
TITCHE-GOETTINGER	<i>Dallas, Texas</i>
LAUBACH'S	<i>Easton, Pa.</i>
BON MARCHÉ-RUSSELL'S	<i>Eugene, Ore.</i>
HERPOLSHEIMER'S	<i>Grand Rapids, Mich.</i>
PARIS OF MONTANA	<i>Great Falls, Mont.</i>
MEYER'S	<i>Greensboro, N. C.</i>
ROBINSON-SCHWENN	<i>Hamilton, Ohio</i>
JOSKE'S OF HOUSTON	<i>Houston and Gulfgate, Texas</i>
FIELD'S	<i>Jackson, Mich.</i>
KENNINGTON'S	<i>Jackson, Miss.</i>
GERTZ	<i>Jamaica, Flushing and Hicksville, N. Y.</i>
PECK'S	<i>Kansas City, Mo.</i>
MULLER'S	<i>Lake Charles, La.</i>
BON TON	<i>Lebanon, Pa.</i>
BON MARCHÉ	<i>Longview, Wash.</i>
BON MARCHÉ	<i>Lowell, Mass.</i>
GUGGENHEIMER'S	<i>Lynchburg, Va.</i>
JORDAN MARSH — MIAMI	<i>Miami, Fla.</i>
JOHN ROSS	<i>Middletown, Ohio</i>
DONALDSON'S	<i>Minneapolis, Rochester and Southdale, Minn., and Rapid City, South Dakota</i>
MISSOULA MERCANTILE	<i>Missoula, Mont.</i>
HARDY-HERPOLSHEIMER	<i>Muskegon, Mich.</i>
CAIN-SLOAN	<i>Nashville, Tenn.</i>
STERN'S	<i>New York and Great Neck, N. Y. and Paramus, N. J.</i>
BON MARCHÉ	<i>Ogden, Utah</i>
QUACKENBUSH	<i>Paterson, N. J.</i>
WAITE'S	<i>Pontiac, Mich.</i>
JOSKE'S OF TEXAS	<i>San Antonio and Las Palmas, Texas</i>
LEVY'S OF SAVANNAH	<i>Savannah, Ga.</i>
BON MARCHÉ	<i>Seattle, Northgate, Everett and Tacoma, Wash.</i>
BON MARCHÉ	<i>Spokane, Wash.</i>
HEER'S	<i>Springfield, Mo.</i>
WREN'S	<i>Springfield, Ohio</i>
GOLDEN RULE	<i>St. Paul, Minn.</i>
DEY BROTHERS	<i>Syracuse, N. Y.</i>
MAAS BROTHERS	<i>Tampa, St. Petersburg, Lakeland and Sarasota, Fla.</i>
BON MARCHÉ	<i>Walla Walla, Wash.</i>
BLACK'S	<i>Waterloo, Iowa</i>
BON MARCHÉ	<i>Yakima, Wash.</i>
POMEROY'S	<i>Reading, Harrisburg, Wilkes-Barre, Pottsville and Levittown, Pa.</i>
TROUTMAN'S	<i>Greensburg, Butler, Dubois, Indiana, Connellsville, Latrobe, and New Castle, Pa.</i>
ANDERSON'S	<i>Boise, Lewiston, Idaho Falls and Twin Falls, Idaho; Richland, Wash.; and Pendleton, Ore.</i>

BUYING OFFICE SUBSIDIARIES

ALLIED PURCHASING CORPORATION	<i>New York — Chicago — Los Angeles</i>
METASCO, INC.	<i>New York — London — Paris — Brussels — Frankfurt — Vienna — Florence — Tokyo</i>

DIRECTORS AND OFFICERS

DIRECTORS

REX L. ALLISON, Allied Stores Corporation
CHARLES B. BARNES, Hemenway & Barnes, Boston, Mass.
THEODORE R. BROUILLETTE, Allied Stores Corporation
MRS. TOBÉ C. DAVIS, Tobé & Associates, Inc., New York, N. Y.
PERCY J. EBBOTT, The Chase Manhattan Bank, New York, N. Y.
HORACE C. FLANIGAN, Manufacturers Trust Company, New York, N. Y.
ROBERT R. GUTHRIE, St. Petersburg, Fla.
HERMAN H. KAHN, Lehman Brothers, New York, N. Y.
CHARLES E. MCCARTHY, Allied Stores Corporation
W. EARL MCCORMICK, Allied Stores Corporation
MALCOLM P. MCNAIR, Harvard University, Boston, Mass.
EDWARD R. MITTON, Jordan Marsh Company, Boston, Mass.
B. EARL PUCKETT, Allied Stores Corporation
THEODORE SCHLESINGER, Allied Stores Corporation
EUSTACE SELIGMAN, Sullivan & Cromwell, New York, N. Y.
HAROLD J. SZOLD, Lehman Brothers, New York, N. Y.
WILLIAM T. TAYLOR, ACF Industries, Inc., New York, N. Y.
LAWRENCE WILKINSON, Continental Can Company, Inc., New York, N. Y.

OFFICERS

B. EARL PUCKETT *Chairman of the Board*
CHARLES E. MCCARTHY . . *Vice-Chairman of the Board*
THEODORE SCHLESINGER . . *President*
EDWARD R. MITTON . . . *Vice-President*
W. EARL MCCORMICK . . . *Vice-President*
THEODORE R. BROUILLETTE . *Vice-President*
REX L. ALLISON *Vice-President*
JAMES H. REEDY *Vice-President*
BEN R. GORDON *Vice-President*
ARTHUR C. HALLAN . . . *Vice-President*
RALPH F. WALTZ *Vice-President*
JOHN J. MCGRATH *Vice-President*
ROBERT W. KUHLM *Treasurer*
RALPH W. BUTTON *Secretary*
JOHN R. O'HANLON . . . *Assistant Secretary*

COUNSEL AND AUDITORS

GENERAL COUNSEL

SULLIVAN & CROMWELL, 48 Wall Street, New York, N. Y.

AUDITORS

TOUCHE, ROSS, BAILEY & SMART, 233 Broadway, New York, N. Y.

CAPITAL STOCK AGENCIES

TRANSFER AGENT

BANKERS TRUST COMPANY, 16 Wall Street, New York, N. Y.

REGISTRARS

Preferred Stock
THE CHASE MANHATTAN BANK
11 Broad Street, New York, N. Y.

Common Stock
MANUFACTURERS TRUST COMPANY
55 Broad Street, New York, N. Y.

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TEN YEAR STATEMENTS

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The term "Company," wherever mentioned in this report, refers to Allied Stores Corporation and Subsidiaries Consolidated, which excludes Alstores Realty Corporation, a wholly-owned real estate subsidiary (herein called Alstores), except as an investment on the Company's balance sheet.

THE STORY IN BRIEF

Fiscal Years Ended January 31

SALES

	1960	1959
Net sales	\$679,488,000	\$643,778,000
Sales % increase — company	5.5%	1.7%
Sales % increase (decrease) — comparable stores	4.2%	(1.3%)

EARNINGS

Before federal income taxes	\$ 28,087,000	\$ 24,204,000
After federal income taxes	14,637,000	12,004,000
Earnings per share	\$5.17	\$4.18

TAXES

Taxes — federal, state and local	\$ 28,206,000	\$ 24,990,000
Taxes per share	\$10.64	\$9.44

DEPRECIATION

Depreciation	\$ 6,761,000	\$ 6,512,000
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WAGES

Wages and salaries	\$118,386,000	\$110,612,000
Average number of employees	31,000	30,500

DISPOSITION OF AFTER-TAX EARNINGS

Dividends paid		
— Total	\$ 8,887,000	\$ 8,860,000
— 4% Preferred	937,000	950,000
— Common	7,950,000	7,910,000
— Common per share	\$3.00	\$3.00
Retained earnings	\$ 5,750,000	\$ 3,144,000

WORKING ASSETS

Working capital	\$145,965,000	\$138,985,000
Current asset ratio	3.4 to 1	3.4 to 1
Merchandise on order	\$ 29,700,000	\$ 27,200,000
Inventories	98,466,000	90,569,000
Lifo reduction — cumulative	6,906,000	6,777,000

CAPITAL STOCK

Preferred Stock outstanding	231,897 shares	234,517 shares
Common Stock outstanding	2,650,284 shares	2,646,034 shares
Common Stock equity	\$162,526,000	\$156,557,000
Common Stock equity per share	\$61.32	\$59.17

NUMBER OF STORES

Department stores	35	35
Major branch stores	14	14
Junior department stores	34	35
Specialty stores	2	2

LETTER TO THE STOCKHOLDERS

To the Stockholders:

Sales for 1959, \$679,488,000, were the highest in the history of the Company and exceeded sales for 1958 by \$35,710,000 or 5.5%. If sales of stores not owned at all times during both years are excluded, sales were 4.2% greater than for the preceding year. Earnings for 1959, after returning to income \$1,400,000 of prior years' provisions for federal income taxes, were \$14,637,000 or \$5.17 per share which compares with \$12,004,000 or \$4.18 per share for the preceding year. In November, 1959, certain federal tax litigation concerning the sale of real estate in a preceding year was successfully concluded, thus permitting the release of the above \$1,400,000.

Stockholder communications of the past have mentioned problem stores and efforts to correct same. In 1958 seven operating units were unprofitable. In 1959 one of these produced a profit and the loss of the remaining six was reduced by more than \$1,000,000. Management continues to focus attention on these unprofitable units and is confident that most of them can be made profitable.

The program of strengthening central management was referred to in last year's annual report. Two executives of vice-presidential rank have joined the Company in the past year. In the fall of 1959, Mr. John J. McGrath, formerly of J. C. Penney Company, joined the Company in charge of executive and organization development. Recently, Mr. Thomas M. Macioce resigned as President of L. F. Dommerich & Co., Inc., to join the Company in charge of its corporate and financial affairs.

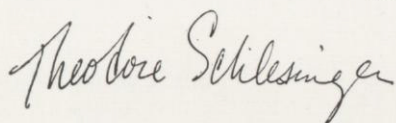
In most of the annual reports of the Company over the past decade an important subject of comment has been that of Shopping Center and Branch Store development. Such expansion activities as are currently being conducted are principally expanding the physical facilities of the more successful of these ventures. In 1959 Jordan Marsh, Boston, expanded its branch in Framingham as did Gertz, Jamaica, its branches in Hicksville and Flushing. Near the close of the year construction was started on a 65% expansion of the Maas Brothers branch store in Sarasota, Florida. Jordan Marsh, Miami, will open a major branch in the Sunrise Shopping Center, Fort Lauderdale, Florida, in 1960. In addition, a junior department store in Missoula, Montana, was acquired and two small junior department stores were liquidated during the year.

Over the past decade the Company's program of physical plant improvement has been paralleled by a merchandising program of emphasis on fashion and particularly on apparel fashions. These segments of the business have responded to such emphasis. While the Company continues to be strong in its homefurnishings and appliance operations, its position in the general apparel lines has been greatly strengthened.

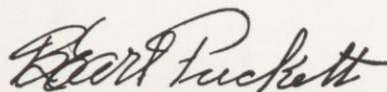
The year 1959, in spite of an extended steel strike, was a satisfactory one for the retailer as consumer spending continued at relatively high levels throughout. Your Company made some progress in the year. While it does not now appear that 1960 will prove to be the boom year that was generally predicted at its beginning, your management is confident that it will be another satisfactory one for the consumer in general and for the Company.

On behalf of the Board of Directors, we wish to express sincere appreciation and thanks for the support of the stockholders, for the cooperation of the thousands of merchandise suppliers who produce the merchandise sold in our stores, for the patronage of our millions of customers, and for the loyal efforts of the many thousands of co-workers in the Company.

Respectfully submitted,



President



Chairman of the Board

April 29, 1960

SALES AND EARNINGS

SALES

Sales were the highest in the history of the Company and amounted to \$679,487,876, an increase of \$35,709,593, or 5.5%, over 1958 sales. If sales of stores not owned at all times during both years are excluded, there was a 4.2% increase for the year.

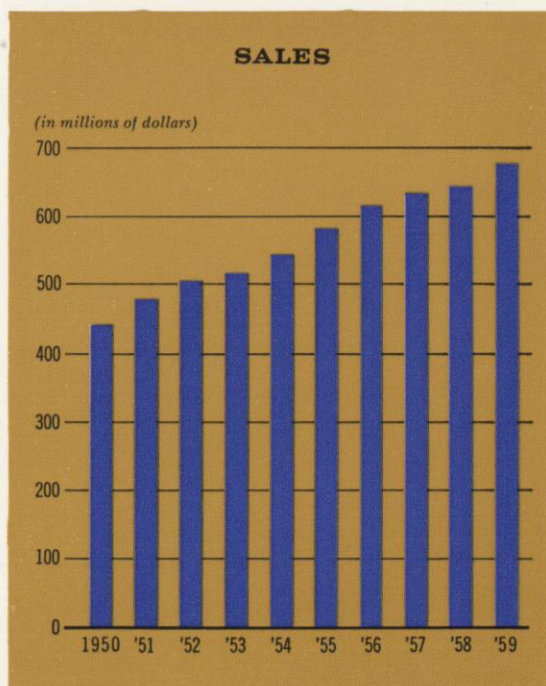
Sales for each of the past five years were:

	Amount	% Increase
1959 . . .	\$679,487,876	5.5%
1958 . . .	643,778,283	1.7
1957 . . .	632,813,514	2.8
1956 . . .	615,772,758	5.8
1955 . . .	581,900,823	7.0

Sales of women's, men's and children's clothing and accessories, toiletries, notions,

piece goods, toys, and various services account for 76% of the Company's business. Sales of furniture, floor coverings, draperies, china-ware and glassware, and housewares amount to 18%. Sales of major appliances, radios and television sets account for 6% of the Company's business.

Based upon methods of payment by customers, 43% of 1959 sales were on a cash basis and 57% were on a charge basis, consisting of 38% regular thirty-day charge accounts, 8% deferred payment accounts, and 11% revolving credit accounts. As is customary with department stores, a part of the Company's sales, amounting to 5%, were sales of departments operated in the stores by outsiders on a lease or license basis.



EARNINGS AND EARNINGS TRENDS

Net earnings for the year totaled \$14,637,080, equal to \$5.17 per share of Common Stock, after returning to income \$1,400,000 of prior years' provisions for federal income taxes. Net earnings for 1958 were \$12,003,578, or \$4.18 per share.

In November, 1959, certain federal tax litigation was successfully concluded in favor of the Company. This favorable decision permitted the release of the above \$1,400,000. As a result, the current year's provision for federal income taxes has been reduced by this amount.

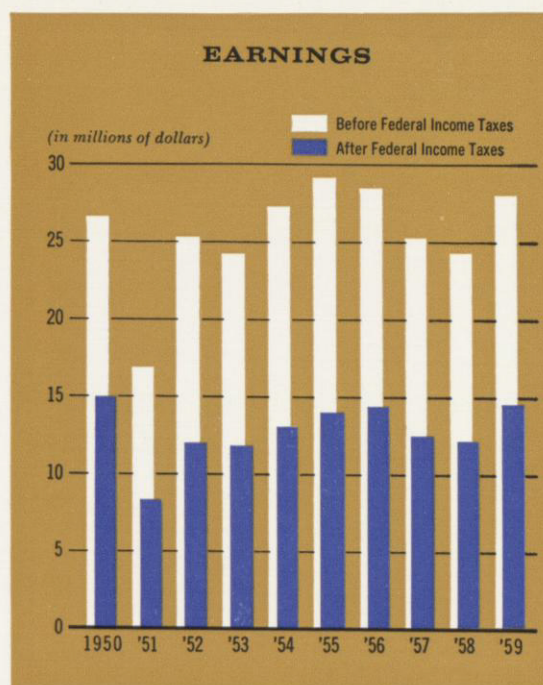
Gross margin percentage on merchandise sold during the year was 34.5% as compared to 33.8% for the previous year. Gross margin was decreased \$129,015 in 1959 by the application of the Lifo (last-in, first-out) principle

of inventory valuation, whereas in 1958 gross margin was increased \$195,250 thereby. Initial markup was slightly higher and mark-downs were slightly lower in 1959 than in 1958.

Operating expense percentage increased from 29.9% in 1958 to 30.3% in 1959. Over one-half of the increase is attributable to higher wage costs. The trend of wage increases, without a corresponding increase in worker productivity, continues.

Gross margin and operating expense percentages for the past five years were:

	% of Sales	
	Gross Margin	Operating Expense
1959	34.5%	30.3%
1958	33.8	29.9
1957	33.7	29.5
1956	33.8	29.0
1955	33.9	28.7



The following five-year tabulation sets forth certain salient earnings and related financial information on quarterly, annual, and per share bases:

	1959	1958	1957	1956	1955
Earnings before taxes					
First quarter . .	\$ 1,298,412	\$ (247,688)	\$ 3,338,923	\$ 3,114,371	\$ 3,103,666
Second quarter . .	2,048,773	1,256,781	1,700,305	2,743,577	3,375,874
Third quarter . .	6,095,831	6,174,527	4,721,815	6,281,197	7,023,718
Fourth quarter . .	18,644,064	17,019,958	15,390,432	16,323,412	15,668,845
Total year	28,087,080	24,203,578	25,151,475	28,462,557	29,172,103
Federal income taxes	13,450,000	12,200,000	12,800,000	14,200,000	15,200,000
Net earnings . . .	<u>\$14,637,080</u>	<u>\$12,003,578</u>	<u>\$12,351,475</u>	<u>\$14,262,557</u>	<u>\$13,972,103</u>
Per share of Common Stock:					
Earnings	\$5.17	\$4.18	\$4.33	\$5.05	\$5.09
Dividends	3.00	3.00	3.00	3.00	3.00
Book value	61.32	59.17	58.08	56.72	54.70

WORKING CAPITAL

Cash at the close of the year, \$26,936,001, was \$752,739 more than at the beginning of the year. There were no short-term bank loans at either date. The year-end ratio of current assets, \$207,536,050, to current liabilities, \$61,571,500, was 3.4 to 1, the same as at the close of the previous year.

A five year comparison of year-end working capital (current assets less current liabilities) and its percentage of annual sales follows:

	Working Capital	% of Sales
1959 . . .	\$145,964,550	21.5%
1958 . . .	138,985,254	21.6
1957 . . .	144,589,131	22.8
1956 . . .	148,778,678	24.2
1955 . . .	149,457,661	25.7

As indicated above, working capital increased \$6,979,296 during the year. This increase reflects retained earnings for 1959 of \$5,750,330, net repayment of \$4,416,498 on advances made to Alstores, and sale of 4,250 shares of Common Stock at a price of \$180,-680 to employees pursuant to exercise of their options. Partially offsetting the above items were repayments of \$2,600,000 of long-term debt, repurchases of 2,620 shares of Preferred Stock at a cost of \$223,622, and a net increase

in other assets of \$544,590. Present working capital is considered adequate to support present and prospective sales volume.

CUSTOMERS' ACCOUNTS RECEIVABLE

Total net customers' accounts receivable of all types owned by the Company at the close of the year, \$70,734,746, were \$3,163,340 more than at the beginning of the year. As a result of increased sales, all types of customers' obligations increased during the year. Regular charge accounts, all of which are owned by the Company, increased \$3,612,-815. Revolving credit accounts and deferred payment or installment accounts, both those owned by the Company and those owned by banks, increased \$6,043,177 and \$240,551, respectively. However, because of the increased sale of accounts to banks, the investment in revolving credit accounts owned by the Company decreased \$1,526,932 during the year and in installment accounts decreased \$212,680.

Sales made on credit in 1959 were 57% of total sales, compared with 56% in 1958. While regular charge sales and sales on the deferred payment or installment basis increased in dollar amount, their percentage relationships to total sales were approximately

the same in 1959 as in 1958. On the other hand, revolving credit sales accounted for 11.5% of 1959 sales, an increase over 1958 of 1.2 percentage points or over \$12,000,000.

Substantial amounts of capital are required to finance the Company's accounts receivable, a banking rather than a merchandising operation. The Company has, accordingly, during the past nine years sold most of its installment accounts (and during the past four years a part of its revolving credit accounts) to banks on a non-recourse basis, with a percentage of the proceeds of such sales being retained by the banks as reserves pending final collection. At the close of the year, the Company had sold to banks accounts having uncollected balances of \$58,847,706 as compared with \$50,824,366 at the close of the preceding year. Of the accounts sold at the close of the year, \$28,312,782 were installment accounts and \$30,534,924 were revolving credit accounts, in which the Company's equity (banks' retained reserves), was \$3,408,539 and \$3,805,292, respectively.

As in previous years, amounts provided for losses on collection of customers' accounts receivable were determined by the application of a formula to an age analysis of the individual accounts. Allowances determined in this manner in past years have been adequate to provide for actual losses, which for the past ten years have equalled four-tenths of one percent of credit sales. Allowances for unearned

carrying charges are included with allowances for losses on collection, as such carrying charges are subject to cancellation in the event of prepayment by the customer.

INVENTORIES

Merchandise inventories, generally valued net of all discounts, totaled \$98,466,319 at the year-end, \$7,897,511 more than at the beginning of the year. Inventories in the stores were valued at the lower of cost or market, as determined by the retail inventory method, and, as has been the case since January 31, 1942, by applying the Lifo (last-in, first-out) principle to certain inventories. As a result of the application of this principle, the Company valued part of its investment in inventories at price levels prevailing at January 31, 1941, and other parts at price levels prevailing at the close of subsequent years. The cumulative effect at the beginning of the year was a reduction in the carrying value of inventories of \$6,776,913 below replacement costs. Application of the Lifo principle during the year resulted in a further decrease of \$129,015 in the carrying value of inventories and a corresponding decrease in the Company's earnings before federal income taxes for the year. Therefore, inventories at the close of the year were valued at \$6,905,928 less than they would have been had the Lifo principle of valuation not been used.

PROPERTY AND EQUIPMENT

Property and equipment of the Company at the close of the year totaled \$62,908,179, representing an increase of \$1,677,801 during the year. Property additions totaled \$9,484,335, which were partially offset by provision for depreciation of \$6,760,598 and by transfer to Alstores of property having a depreciated value of \$1,045,936. Six major modernization and expansion projects account for almost six million dollars of the property additions. The remaining three and one half million dollars represents normal replacements and modernization work for the more than eighty stores of the Company.

Three of the six projects mentioned above provide much needed expansion of selling area for rapidly growing branch stores. The Jordan Marsh branch store in Shoppers' World, Framingham, was enlarged by 60,000 square feet. A Gertz branch was opened in October, 1956, in the Hicksville, Long Island shopping center, with only four of the five floors utilized for selling. During 1959 the 50,000 square foot fifth floor was fixtured and converted to selling area. A 35,000 square foot expansion of the Flushing branch of Gertz was commenced during 1959 and completed after the close of the year. The remaining projects consisted of refixturing and modernization of Pomeroy's, Harrisburg,

air conditioning, modernization and refixturing of a substantial portion of Stern's, New York, and construction of a new warehouse for Cain-Sloan, Nashville.

With few exceptions, the Company's physical plant is now in first-class condition. It is believed that for the next several years no major rehabilitation or modernization projects will be required. There will, however, be normal replacements of obsolete and fully depreciated assets. In addition, new facilities and expansion of existing facilities will be constructed, primarily by Alstores, as circumstances dictate. It is expected that expenditures for property and equipment in 1960 will approximate provision for depreciation.

RENTALS

Practically all of the department store premises occupied by the Company's stores are under long-term leases, either from Alstores or from outside landlords. Rentals for 1959 totaled \$16,603,697, of which \$8,891,505 was paid to Alstores. Of the remaining \$7,712,192 in rentals paid to outside landlords, \$4,931,434 represented fixed minimum rentals and \$2,780,758 represented bonus rentals based on sales in excess of stated minimums.

ALSTORES REALTY CORPORATION

HISTORY AND PURPOSE

Alstores Realty Corporation is a wholly-owned real estate subsidiary which was organized in 1947 for the purpose of enabling the Company to purchase, and finance on long-term bases, real estate occupied by the Company's stores in preference to leasing such real estate from outside landlords. Since it has been possible to finance a very substantial part of the cost of real estate through institutional borrowings, Alstores has enabled the Company to conform to its long established policy of keeping its stockholders' funds invested primarily in merchandising activities.

Because Alstores differs from other subsidiaries of the Company in purpose, methods of operation, policies and financial structure, the financial statements of Alstores are not consolidated with those of the Company. Such consolidation would be confusing and might be misleading. Separate financial statements for Alstores and its subsidiaries are included on pages 24 and 25 of this report.

Leases from Alstores, as the landlord, are in several respects, more favorable to the Company than leases from outside landlords. In general, the rental cost is lower because rentals are based upon the favorable interest rates obtained by Alstores in its financing of the properties, and Alstores attempts to obtain only a small profit. There is also better cooperation and greater flexibility of operations, since lease modifications and expansion of store premises can more readily be made with Alstores than with outside landlords. Finally, there has been, and probably will continue to be, material appreciation in the market values, as compared to depreciated book values, of the real estate holdings.

Alstores owns 36 store premises, 23 warehouse properties, 11 parking garages or parking premises, 4 shopping centers and 9 future store locations and sundry properties. Substantially all of the department store, warehouse and parking properties owned by Alstores are leased to, and occupied by, Allied Stores Corporation or its store subsidiaries under long-term leases which are guaranteed as to performance by Allied, as is usually the case with respect to leases with outside landlords.

1959 TRANSACTIONS

During the year certain building improvements made by The Bon Marché, Spokane, were acquired at their depreciated cost of \$1,045,936. The balance of additions to property and equipment, \$1,365,372, represents primarily the cost of the real estate of Missoula Mercantile Co., the business of which was acquired by the Company during 1959; construction costs of the Fort Lauderdale store building incurred to the close of the year; and the purchase price of sundry real estate. Two parcels of real estate were sold and one was acquired by a governmental authority in condemnation proceedings. These properties, which had a depreciated value of \$889,264, were sold for \$1,647,978.

Late in the year Alstores commenced construction of a 165,000 square foot branch store of Jordan Marsh-Miami in Sunrise Shopping Center, Fort Lauderdale, Florida, referred to in the Letter to Stockholders. When opened in the Fall of 1960, this store will be the Company's second store on the rapidly growing east coast of Florida, its seventh in the state.

Florida's growth in recent years has been impressive. Since 1950 population has risen 72%, four times the 17% rise of the rest of the country. Over half of this increase has taken place in the areas presently or shortly to be served by the Company. In recognition of the great expansion of Florida's economy, the Company since 1948 has expanded its Tampa area operations to include St. Petersburg, Lakeland, and Sarasota. The Sarasota store, opened September, 1956, has outgrown its 80,000 square foot building. Subsequent to the close of the year, construction of a 50,000 square foot addition was commenced and should be completed in the near future. Jordan Marsh-Miami, opened in 1956 and expanded in 1958, has become a leading store of the Miami area. Its new branch, to be opened in late 1960 in the rapidly growing Fort Lauderdale area, should be equally successful.

BALANCE SHEET

As shown on the balance sheet of Alstores on page 24 of this report, net property and equipment decreased \$2,096,869 during the year to \$155,094,621. The property additions described in the previous section totaled \$2,411,308. More than offsetting these additions were provision for depreciation for the year, \$3,618,913, and sales of properties having a book value of \$889,264.

Long-term debt increased from \$133,979,889 at the beginning of the year to \$135,890,341 at the close of the year. Permanent financing of the Fort Lauderdale and Missoula store buildings and temporary financing of two other properties, totaling \$5,100,000,

were consummated during the year. Payments on long-term debt amounted to \$3,189,548, of which \$2,789,927 represented the year's sinking fund requirements provided in the various debt instruments.

Reference is made to the balance sheet notes of Alstores on page 25 of this report for information regarding the long-term debt maturities and sinking fund requirements for the next five years. With the exception of \$5,000,000 applicable to one loan, the Company is not directly obligated on any of the long-term debt of Alstores. At the close of the year, Alstores was indebted to the Company on an open account basis, with interest at the rate of 5% per annum, in the amount of \$15,266,628, a decrease of \$4,439,564 from the amount of indebtedness at the close of the previous year.

OPERATIONS

Rental income, which represents the principal source of Alstores' earnings, increased \$1,219,157 over the previous year and totaled \$12,206,127. Of this amount \$8,891,505 was received from the Company and \$3,314,622 from outside interests, principally tenants of the four shopping centers owned by Alstores. In addition to rental income, during 1959 Alstores disposed of three properties at a profit of \$758,714.

After a provision of \$250,000 for federal income taxes, net earnings for the year were \$457,417. As the operations of Alstores are not consolidated with those of the Company, and as no dividends were paid by Alstores, no part of these earnings is included in the Statement of Earnings of the Company.

CAPITAL STRUCTURE

The capital structure of the Company at January 31, 1960 consisted of:

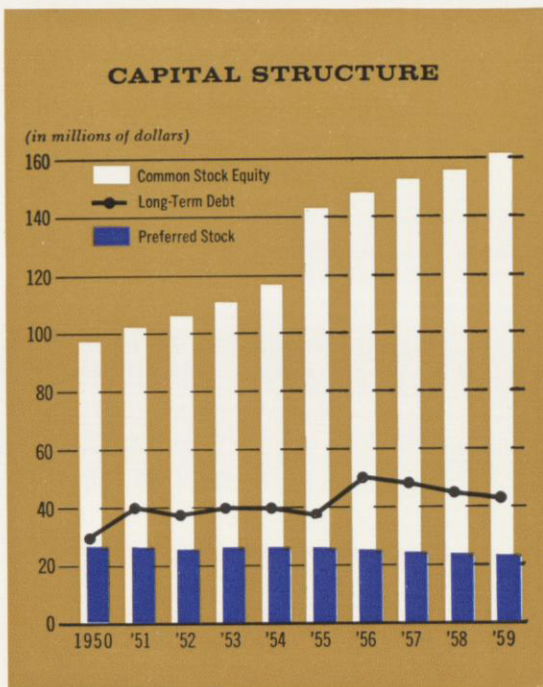
	Amount	Percent of Total
Long-term debt	\$ 42,800,000	18.7%
Cumulative preferred stock	23,189,700	10.2
Common stock equity	162,526,327	71.1
Total	\$228,516,027	100.0%

Additional information relating to each of the above classifications is set forth below.

3 $\frac{1}{8}$ % and 3 $\frac{1}{2}$ % promissory notes are held jointly by two life insurance companies and have similar provisions, except as to final maturity dates and amortization payments. The 4 $\frac{3}{4}$ % Sinking Fund Debentures are publicly held. Amortization payments were made during the year, thereby reducing the unpaid balances at the close of the year to \$15,000,000 for the 3 $\frac{1}{8}$ % promissory notes, \$10,800,000 for the 3 $\frac{1}{2}$ % promissory notes, and \$2,000,000 for the bank loan. No amortization payments are required on the \$15,000,000 4 $\frac{3}{4}$ % Sinking Fund Debentures until 1961.

The Company has prepaid amortization payments required in 1960 on all of its long-term debt. Thereafter, amortization payments will amount to \$3,600,000 for 1961, and in the succeeding nine years will range from a low of \$1,650,000 to a high of \$3,600,000. Final maturities of the promissory notes are \$5,500,000 in 1967 and \$3,300,000 in 1971, and of the Debentures \$3,750,000 in 1976.

As is customary with corporate long-term debt, there are certain restrictive provisions in the promissory notes and Debentures regarding dividend payments and the issuance of additional long-term debt. At the close of the year, approximately forty one million dollars of the Company's earned surplus was free of dividend payment restrictions, and long-term debt was approximately twenty seven million dollars less than the debt permitted by these restrictions. Alstores' right to issue additional long-term debt is not so restricted.



LONG-TERM DEBT

At the beginning of the year, the Company had outstanding \$16,000,000 of 3 $\frac{1}{8}$ % promissory notes due 1967; \$11,400,000 of 3 $\frac{1}{2}$ % promissory notes due 1971; \$15,000,000 of 4 $\frac{3}{4}$ % Sinking Fund Debentures due 1976; and a \$3,000,000 note to a bank, payable in three equal annual installments. Both the

CUMULATIVE PREFERRED STOCK

The Cumulative Preferred Stock has equal voting rights on a share-for-share basis with the Common Stock and may be issued from time to time in one or more series. As determined by the Board of Directors, each series may vary with respect to number of shares to be issued, dividend rates, redemption terms, convertibility into other classes of stock, or amount of annual sinking fund in excess of the minimum requirement of at least 2%

of the greatest number of shares of such series ever issued.

The charter provides that retirement of stock in accordance with sinking fund requirements shall reduce the authorized number of shares of such stock. In 1959, 6,146 shares were retired to meet sinking fund requirements which, together with 36,303 shares so retired in prior years, have reduced the original authorization of 400,000 shares to 357,551 shares. At the close of the year, 232,295 shares were outstanding (including 398 shares held in the treasury), and 125,256 shares were unissued.

To date, two series of Preferred Stock have been created and issued. The first issue in 1945, known as the "4% Series," is listed on the New York Stock Exchange. The sinking fund requirement for this series, which for 1959 was 5,146 shares, is 2% of the greatest number of shares ever issued. At the close of the year, 190,897 shares of this series were outstanding in the hands of the public and 398 shares were held in the treasury. The second issue, known as the "4% Second Series," was sold to a life insurance company in 1951. Its terms are identical to the original 4% Series, except that the sinking fund requirement for each of the five years 1971-1975 will be 12% or 6,000 shares, instead of 2%, or 1,000 shares. At the close of the year, 41,000 shares of this series were outstanding.

Throughout the past 25 years, the Company has paid when due regular quarterly dividends on its Preferred Stock and has promptly met all sinking fund requirements. Earnings for the year were equivalent to \$63.12 per share (15.8 times dividend requirement) on the Preferred Stock outstanding at the close of the year.

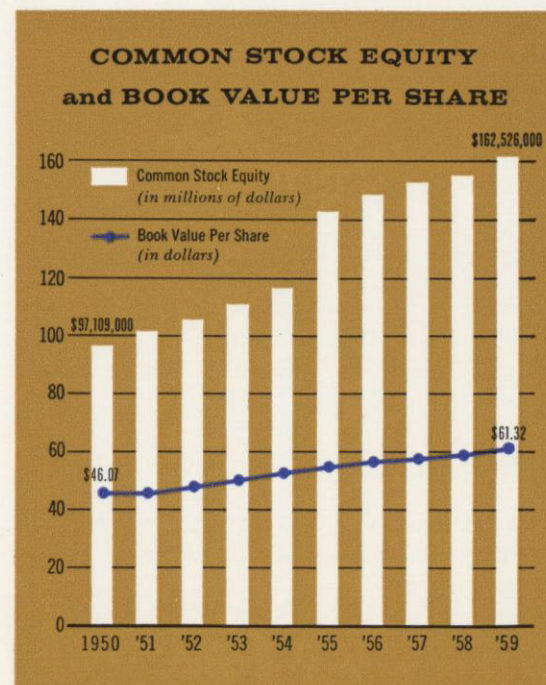
COMMON STOCK

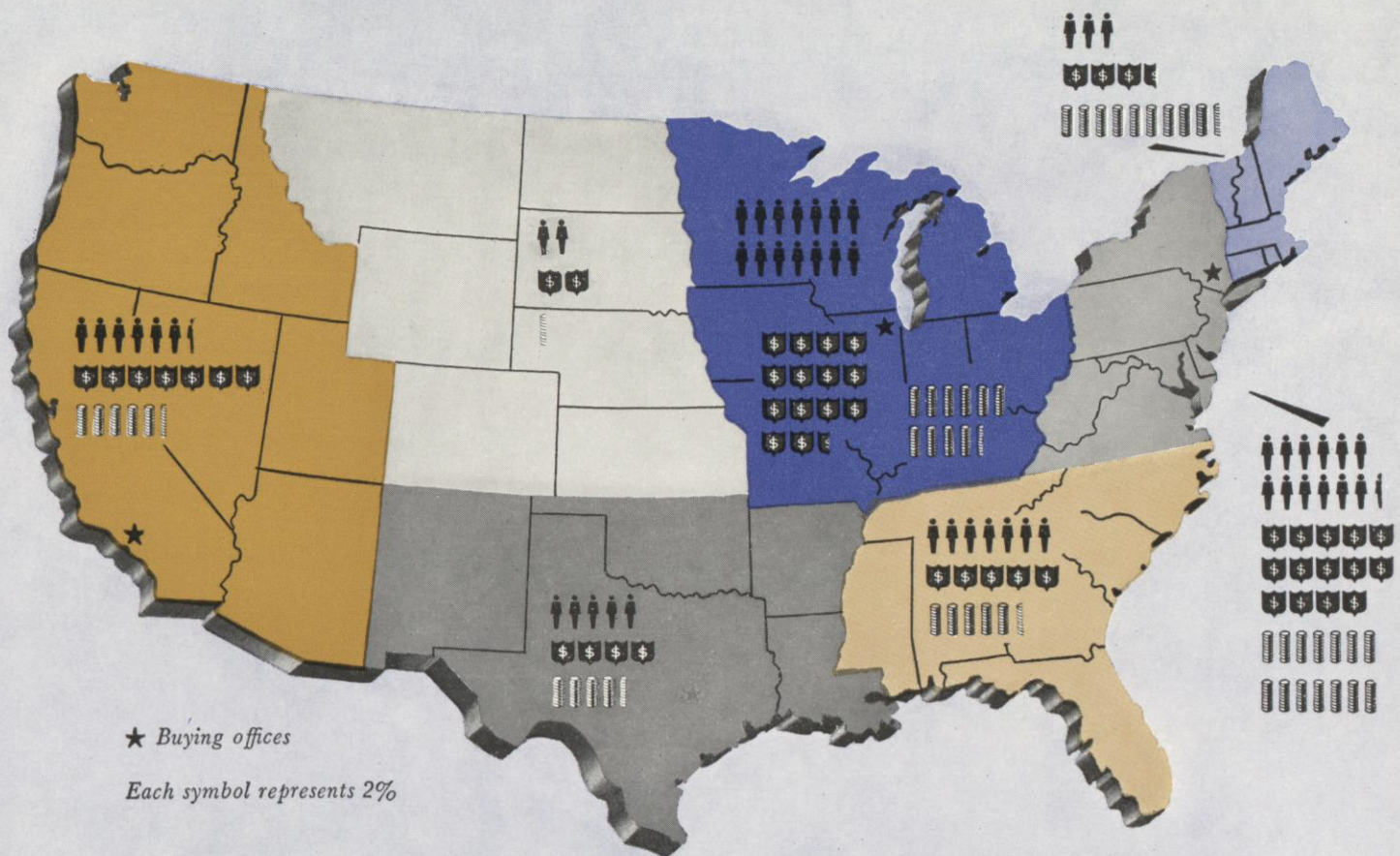
The Company's charter authorizes the issuance of 4,000,000 shares of Common Stock without par value. Under this authorization, 2,650,284 shares were outstanding at the close of the year.

The stockholders in 1951 approved a Stock Option Plan which provided for the granting,

from time to time, of options for the purchase of not exceeding 150,000 shares of authorized but unissued Common Stock by executives and key employees of the Company at 95% of the market price at the time the option was granted. Options were granted in 1951 to eighteen individuals for a total of 89,500 shares at a price of \$38.60 per share; in 1954 to eight individuals for a total of 11,500 shares at a price of \$45.84 per share; and in 1957 to three individuals for a total of 7,500 shares at a price of \$41.80 per share. During 1959, four individuals exercised their options to the extent of 4,250 shares for which the Company received \$180,680 in cash. At the close of the year, unexercised options for 14,500 shares were held by eight individuals and 51,100 shares were available for the granting of options in the future.

The authorized Common Stock not issued or set aside for sale under the Stock Option Plan (1,284,116 shares at the close of the year) may be issued at any time at the discretion of the Board of Directors. There are no plans at present to issue any of these shares.





National Distribution of Allied Stores' Sales

Compared with U. S. Population and Income

AREA	 U. S. POPULATION % TO TOTAL	 U. S. INCOME % TO TOTAL	 ALLIED SALES % TO TOTAL
New England	6%	7%	19%
Middle East	25	28	28
Southeast	14	10	11
Central	28	29	21
Southwest	10	8	9
West	4	4	1
Far West	13	14	11
TOTAL	100%	100%	100%

PERTINENT FACTS ABOUT ALLIED

SCOPE

Allied Stores Corporation is both an operating company and a holding company. It operates directly 15 department stores and smaller stores classified as junior department stores. It owns the entire capital stocks of various subsidiaries which operate 68 such stores and 2 specialty stores. It also owns Alstores, which in turn owns a very substantial number of the properties occupied by the Company's stores.

The principal lines of merchandise carried in the stores are women's, men's and children's clothing and accessories, and general articles for home needs. Most of the larger stores operate basement divisions appealing to the lower income groups of consumers. In general, the stores endeavor to satisfy most of the usual general merchandise needs of consumers from the lower income groups up to and including those of the families of the professional and business man. All of the stores occupy well equipped buildings in desirable retail localities.

DIVERSIFICATION

Of the 85 stores operated by the Company, 35 are complete department stores, 14 are major branch stores, 34 are junior department stores and 2 are specialty stores. The stores are well diversified by geographical location and by size of store. The 10 largest stores, with their branches, account for approximately 62% of total sales. A map on page 15 shows the distribution of the Company's business by geographical regions in comparison with the population and consumer income of the regions. These factors are expressed in terms of percentages of national totals. The Company's business is concentrated in the Middle Eastern, Central and New England sections, all of which have higher-than-average incomes per capita as compared to the nation's total population.

PRINCIPLES OF OPERATION

Each store, with its branches, is operated separately under the immediate supervision of its local management. Allied's officers advise with the management of each store in the formulation of store policy. The Company operates,

through two subsidiaries, domestic buying offices in New York, Chicago, and Los Angeles and foreign buying offices in London, Paris, Brussels, Frankfurt, Vienna, Florence and Tokyo.

A specialized staff in New York provides services for all of the stores in taxes, insurance, accounting systems and methods, consumers' credit, statistical analyses and forecasting, personnel, supply purchasing, plant maintenance and improvement, store planning, display, sales promotion, and general research in merchandising and store operating problems.

The Company's activities form a part of one of the most fundamental of all industries — that of distributing merchandise to the consumer. Laboratory discoveries, inventions, technological improvements, mass changes in customs or habits, and the dictates of fashion present no hazards but rather offer opportunities to the alert retailer.

While distribution to consumers is a fundamental industry, it is also a highly competitive one. Identical or similar merchandise is generally available to competitors at approximately the same cost price. Usually, cost prices are established by the manufacturer and retail prices by competitors. There are no effective patents, trademarks, or copyrights that assure profits or cushion losses for the retailer. Both buying and selling are done in open competi-

tive markets where the measure of success is determined by the degree of efficiency and effectiveness.

PERSONNEL

The Company regularly employs about 31,000 people with peak seasonal employment in excess of 40,000. Over one-third of the executives are women — a recognition of the fact that a vast majority of the Company's customers are women.

Each year approximately six hundred people are recruited from within the stores and from colleges for a formal program of executive training and development. The program provides for periods of classroom study and discussion, alternating with on-the-job assignments. Within a year the trainee will have worked for a brief period in every important activity or division of a department store. At the completion of the program the successful trainees are usually given junior executive positions.

As a matter of policy, executive positions are filled from within the Company whenever possible. Eighty-five percent of the over twenty-five hundred executives attained their present positions by promotion from within the Company. The wide diversity in size of the Company's stores offers great opportunities for advancement.

ACCOUNTANTS' REPORT

TOUCHE, ROSS BAILEY & SMART

ACCOUNTANTS AND AUDITORS

233 BROADWAY

NEW YORK 7, NEW YORK

ATLANTA
BALTIMORE
BOSTON
CHICAGO
CLEVELAND
DALLAS
DAYTON
DENVER
DETROIT
GRAND RAPIDS
HOUSTON
KANSAS CITY
LOS ANGELES
MILWAUKEE
MINNEAPOLIS
NEW YORK
PHILADELPHIA
PITTSBURGH
PORTLAND (ORE.)
ROCHESTER (N.Y.)
ST. LOUIS
SAN FRANCISCO
SEATTLE
WASHINGTON, D.C.

CANADA, GREAT BRITAIN
AUSTRALIA, CONTINENTAL EUROPE
MEXICO

CORRESPONDENTS IN
OTHER COUNTRIES

CABLE ADDRESS: TROBAS

BOARD OF DIRECTORS,
ALLIED STORES CORPORATION,
NEW YORK, NEW YORK

April 22, 1960

We have examined the accompanying statement of financial position of ALLIED STORES CORPORATION and subsidiaries consolidated as of January 31, 1960 and 1959, and the related statements of earnings and common stockholders' equity for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of ALLIED STORES CORPORATION and subsidiaries consolidated at January 31, 1960 and 1959, and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Touche, Ross, Bailey & Smart

ALLIED STORES CORPORATION AND SUBSIDIARIES CONSOLIDATED

COMPARATIVE STATEMENT OF EARNINGS FOR THE FISCAL YEARS ENDED JANUARY 31

	1960	1959
Net sales (including leased departments)	\$679,487,876	\$643,778,283
Cost of goods sold	444,769,112	426,075,681
GROSS MARGIN	<u>\$234,718,764</u>	<u>\$217,702,602</u>
Operating expenses:		
Administrative, buying, occupancy, publicity, general and selling expenses, including provision for estimated losses on collections (less carrying charges to customers on accounts and notes receivable)	\$163,526,537	\$153,597,682
Rent (including \$8,891,505 for 1960 and \$8,550,416 for 1959 to Alstores Realty Corporation)	16,603,697	15,944,840
Taxes, other than federal income taxes	14,756,305	12,790,368
Provision for depreciation and amortization	6,760,598	6,512,216
Maintenance and repairs	4,047,422	3,559,076
	<u>\$205,694,559</u>	<u>\$192,404,182</u>
OPERATING EARNINGS	<u>\$ 29,024,205</u>	<u>\$ 25,298,420</u>
Deductions from earnings — net:		
Interest paid	\$ 1,902,666	\$ 1,938,993
Non-operating deductions	186,739	248,237
	<u>\$ 2,089,405</u>	<u>\$ 2,187,230</u>
Less non-operating income (including interest of \$928,998 for 1960 and \$932,093 for 1959 from Alstores Realty Corporation)	1,152,280	1,092,388
	<u>\$ 937,125</u>	<u>\$ 1,094,842</u>
EARNINGS BEFORE FEDERAL INCOME TAXES	<u>\$ 28,087,080</u>	<u>\$ 24,203,578</u>
Provision for federal income taxes (after deducting in 1960 \$1,400,000 of provisions in prior years no longer required)	13,450,000	12,200,000
CONSOLIDATED NET EARNINGS FOR YEAR	<u><u>\$ 14,637,080</u></u>	<u><u>\$ 12,003,578</u></u>

See notes to financial statements.

ALLIED STORES CORPORATION AND SUBSIDIARIES CONSOLIDATED

COMPARATIVE STATEMENT OF FINANCIAL POSITION

January 31

	1960	1959
<i>Current Assets:</i>		
Cash	\$ 26,936,001	\$ 26,183,262
Accounts and notes receivable — customers (Schedule 1)	70,734,746	67,571,406
Accounts receivable — suppliers and miscellaneous	6,134,734	6,616,949
Merchandise inventories (Note A)	98,466,319	90,568,808
Prepaid rent, taxes, insurance, supplies, and other expenses	5,264,250	5,865,950
Total current assets	\$207,536,050	\$196,806,375
<i>Current Liabilities:</i>		
Accounts payable	\$ 29,322,671	\$ 27,222,870
Accrued accounts	9,864,481	9,855,420
Taxes (other than federal income taxes)	8,223,557	7,570,977
Federal income taxes	14,160,791	13,171,854
Total current liabilities	\$ 61,571,500	\$ 57,821,121
WORKING CAPITAL	\$145,964,550	\$138,985,254
<i>Investments, Insurance Deposits, and Miscellaneous Assets</i>	2,983,772	4,160,524
<i>Investment in and Advances to Alstores Realty Corporation</i> (100% owned) — See statements attached	16,969,943	21,409,507
Less excess of sales price over former carrying value of properties transferred to Alstores Realty Corporation	611,613	634,679
	\$ 16,358,330	\$ 20,774,828
<i>Property and Equipment (Schedule 2)</i>	\$ 62,908,179	\$ 61,230,378
<i>Unamortized Long-Term Debt Expense</i>	301,195	326,823
<i>Goodwill and Other Intangible Assets</i>	1	1
WORKING CAPITAL AND OTHER ASSETS	\$228,516,027	\$225,477,808
<i>Long-Term Debt (Note B) (Schedule 3)</i>	\$ 42,800,000	\$ 45,400,000
<i>Minority Interest in Stern Brothers</i>	—	69,169
	\$ 42,800,000	\$ 45,469,169
NET ASSETS	\$185,716,027	\$180,008,639

See notes

January 31

Stockholders' Equity:

Cumulative preferred stock (Note C), par value \$100 per share:
Authorized — 357,551 shares for 1960 and 363,697 shares for 1959

Issued:

4% Series — 191,295 shares for 1960 and 196,441 shares for 1959, less 398 shares for 1960 and 3,924 shares for 1959 held in treasury

4% Second Series — 41,000 shares for 1960 and 42,000 shares for 1959

Common stockholders' equity, see following page

TOTAL STOCKHOLDERS' EQUITY . . .

1960	1959
\$ 19,089,700	\$ 19,251,700
4,100,000	4,200,000
\$ 23,189,700	\$ 23,451,700
162,526,327	156,556,939
<u>\$185,716,027</u>	<u>\$180,008,639</u>

SCHEDULES

1. ACCOUNTS AND NOTES RECEIVABLE — CUSTOMERS:

Regular accounts	\$ 55,944,083	\$ 52,331,268
Instalment accounts and notes	4,302,453	4,515,133
Equity in instalment accounts (\$28,312,782 for 1960 and \$27,859,551 for 1959) sold	3,408,539	3,350,409
Revolving credit accounts	8,143,256	9,670,188
Equity in revolving credit accounts (\$30,534,924 for 1960 and \$22,964,815 for 1959) sold	3,805,292	2,815,677
	<u>\$ 75,603,623</u>	<u>\$ 72,682,675</u>
Less allowances for losses on collection and for deferred carrying charges . .	4,868,877	5,111,269
	<u>\$ 70,734,746</u>	<u>\$ 67,571,406</u>

2. PROPERTY AND EQUIPMENT, AT COST:

Land	\$ 2,042,472	\$ 2,043,749
Buildings and equipment on owned properties, less accumulated depreciation of \$220,258 for 1960 and \$289,266 for 1959	1,534,161	1,221,453
Buildings and improvements on leased properties, less accumulated amortization of \$6,894,294 for 1960 and \$6,988,584 for 1959	16,634,864	15,047,302
Store fixtures and equipment, less accumulated depreciation of \$30,251,638 for 1960 and \$26,963,867 for 1959	41,538,118	41,910,107
Improvements in progress	1,158,564	1,007,767
	<u>\$ 62,908,179</u>	<u>\$ 61,230,378</u>

3. LONG-TERM DEBT (NOTE B):

4¾% sinking fund debentures, due November 1, 1976	\$ 15,000,000	\$ 15,000,000
3⅞% promissory notes, final maturity 1967	15,000,000	16,000,000
3½% promissory notes, final maturity 1971	10,800,000	11,400,000
2½% to 3% promissory note, final maturity 1962	2,000,000	3,000,000
	<u>\$ 42,800,000</u>	<u>\$ 45,400,000</u>

to financial statements.

ALLIED STORES CORPORATION AND SUBSIDIARIES CONSOLIDATED

COMPARATIVE STATEMENT OF COMMON STOCKHOLDERS' EQUITY FOR THE FISCAL YEARS ENDED JANUARY 31

	1960	1959
<i>Common stock</i> (Note D) :		
Amount of capital fixed by the Board of Directors at \$1.00 per share:		
Authorized — 4,000,000 shares		
Issued and outstanding — 2,650,284 shares for 1960 and 2,646,034 shares for 1959	\$ 2,650,284	\$ 2,646,034
<i>Additional amounts received</i> for shares issued in excess of \$1.00 per share, and discounts on repurchase of preferred stock:		
Amount at beginning of year	\$ 51,006,837	\$ 50,134,312
Additions in connection with 4,250 shares for 1960 and 19,925 shares for 1959 issued under stock option plan	176,430	749,180
Discount on repurchase of 1,620 shares for 1960 and 6,120 shares for 1959 of cumulative preferred stock, 4% Series	38,378	123,345
Amount at end of year	\$ 51,221,645	\$ 51,006,837
<i>Earnings retained for use in the business</i> since June 1, 1935:		
Amount at beginning of year	\$102,904,068	\$ 99,759,825
Add consolidated net earnings for year	14,637,080	12,003,578
	\$117,541,148	\$111,763,403
Deduct cash dividends:		
On cumulative preferred stock —		
four quarterly dividends of \$1.00 per share	\$ 936,648	\$ 949,808
On common stock —		
four quarterly dividends of \$.75 per share	7,950,102	7,909,527
	\$ 8,886,750	\$ 8,859,335
Amount at end of year, of which \$67,652,000 is restricted at January 31, 1960 by provisions of the long-term debt agreements from the payment of dividends on common stock	\$108,654,398	\$102,904,068
<i>Total common stockholders' equity</i>	\$162,526,327	\$156,556,939

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

The consolidated statements include all subsidiaries except Alstores Realty Corporation (100% owned) and its subsidiaries, for which separate statements are submitted.

- (A) The amounts for inventories of merchandise on hand are generally stated on the basis of cost or market, whichever is lower, as determined by the retail inventory method, net of discounts, using, as to certain inventories, the last-in, first-out (lifo) method based on published indexes of price changes since the dates on which the method was adopted, principally January 31, 1941. Inventories are stated at \$6,905,928 in 1960 and \$6,776,913 in 1959, less than if the last-in, first-out principle had not been followed.

- (B) Under the terms of the Indenture under which the 4¾% Sinking Fund Debentures were issued, the Corporation is obligated to retire, at par, on November 1, 1961 and each year thereafter, \$750,000 principal amount of Debentures. At its option, the Corporation may also retire, at par, an additional \$750,000 principal amount, each year beginning in 1961. In addition, on or after November 1, 1961, the Corporation may redeem all or any part of the Debentures, at par plus a premium of 5%, declining ¾% annually thereafter.

Under the terms of the 3½% and 3½% promissory notes, the Corporation is obligated to make annual prepayments on February 1 of each year in the amount of \$1,850,000 from 1961 to 1963; \$2,000,000 in 1964; \$2,250,000 from 1965 to 1967; and \$900,000 from 1968 to 1970. In addition, the final maturities are \$5,500,000 in 1967 and \$3,300,000 in 1971.

The \$2,000,000 note outstanding at January 31, 1960 matures \$1,000,000 per annum on February 1, 1961 and February 1, 1962. The interest rate is not less than 2½% nor more than 3%.

- (C) Under the terms of the Certificate of Incorporation, the Corporation is obligated on or before December 31 of each year to acquire for retirement 5,146 shares of cumulative preferred stock, 4% Series and, until 1971, 1,000 shares of cumulative preferred stock, 4% Second Series, at the redemption price of \$100 per share and accrued dividends, or by purchase not exceeding such redemption price. Commencing in 1971, the Corporation is obligated to retire 6,000 shares per annum of the Second Series until such series is fully retired. As of January 31, 1960, the Corporation has complied with the retirement provisions of both series and is holding in treasury 398 shares of the 4% Series for future requirements.

In the event of liquidation, whether voluntary or involuntary, the holders of such stock are similarly entitled to \$100 per share and accrued dividends.

- (D) Of the 150,000 shares of common stock reserved for issuance to officers and employees under a stock option plan, 65,600 shares remained unissued at January 31, 1960, consisting of 51,100 shares reserved for options yet to be granted and 14,500 shares reserved under options already granted. During the year options were exercised for the purchase of 3,500 shares at \$41.80 per share and 750 shares at \$45.84 per share. As a result, at January 31, 1960, the options granted for the 14,500 shares were held by eight officers and employees and expire as follows: options for 10,500 shares at \$45.84 per share, on September 28, 1961; and options for 4,000 shares at \$41.80 per share, on May 28, 1964.

- (E) At January 31, 1960 the Corporation and its consolidated subsidiaries were lessees under 197 leases having terms of more than three years from that date. The rentals under these leases for the year ending January 31, 1961 amount to a minimum of \$13,726,084 (of which \$8,711,526 is payable to Alstores Realty Corporation and subsidiaries), plus in most cases, real estate taxes and other expenses and, in certain instances, increased amounts based on percentages of sales. All long-term leases which have annual rentals in excess of \$100,000 each expire between 1971 and 2010, except for one expiring in 2027.

ALSTORES REALTY CORPORATION AND SUBSIDIARIES

COMPARATIVE BALANCE SHEET

	January 31	
	1960	1959
ASSETS		
Cash	\$ 791,952	\$ 862,749
Accounts receivable, prepaid expenses, and other assets	1,227,204	1,058,279
Property and equipment, at cost (Note A)	155,094,621	157,191,490
Unamortized expenses of long-term debt and leases	969,951	898,877
	<u>\$158,083,728</u>	<u>\$160,011,395</u>
LIABILITIES		
Accounts payable	\$ 1,000,859	\$ 1,071,449
Accrued interest and taxes (other than federal income taxes)	737,986	590,621
Federal income taxes	272,790	205,537
Notes and bonds payable (including \$3,373,645 for 1960 and \$4,001,037 for 1959 due within one year) (Notes A and B)	135,890,341	133,979,889
Advances from Allied Stores Corporation and subsidiaries consolidated	15,266,628	19,706,192
Stockholder's equity:		
Capital stock — par value \$100 per share:		
Authorized and issued, 10,000 shares	1,000,000	1,000,000
Additional amount paid in	703,315	703,315
Earnings retained for use in the business	3,211,809	2,754,392
	<u>\$ 4,915,124</u>	<u>\$ 4,457,707</u>
	<u>\$158,083,728</u>	<u>\$160,011,395</u>

COMPARATIVE STATEMENT OF EARNINGS FOR THE FISCAL YEARS ENDED JANUARY 31

	1960	1959
Rental income (including \$8,891,505 for 1960 and \$8,550,416 for 1959 from Allied Stores Corporation and subsidiaries consolidated)	\$ 12,206,127	\$ 10,986,970
Operating expenses:		
Provision for depreciation and amortization	\$ 3,618,913	\$ 3,259,770
Interest (including \$928,998 for 1960 and \$932,093 for 1959 to Allied Stores Corporation and after capitalizing \$568,423 in 1959 for interest during construction)	6,790,575	5,956,485
Taxes, other than federal income taxes	740,669	343,632
Maintenance and repairs	213,063	94,520
Rent	191,861	166,858
Other expenses	702,343	714,098
	<u>\$ 12,257,424</u>	<u>\$ 10,535,363</u>
Net gain on disposition of property	\$ 51,297*	\$ 451,607
	<u>758,714</u>	<u>—</u>
EARNINGS BEFORE FEDERAL INCOME TAXES	\$ 707,417	\$ 451,607
Provision for federal income taxes	250,000	200,000
CONSOLIDATED NET EARNINGS FOR YEAR	\$ 457,417	\$ 251,607
Earnings retained for use in the business at beginning of year	2,754,392	2,502,785
EARNINGS RETAINED FOR USE IN THE BUSINESS AT END OF YEAR	<u>\$ 3,211,809</u>	<u>\$ 2,754,392</u>

*Red figure

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(A) Property and equipment consists of:

	1960	1959
Land	\$ 27,869,499	\$ 28,242,177
Buildings and equipment on owned properties, less accumulated depreciation of \$14,471,334 for 1960 and \$11,912,145 for 1959	95,434,550	97,331,802
Buildings and improvements on leased properties, less accumulated amortization of \$6,132,333 for 1960 and \$5,324,451 for 1959	29,970,808	30,300,807
Store fixtures and equipment, less accumulated depreciation of \$1,266,387 for 1960 and \$1,091,444 for 1959	1,075,124	1,204,642
Construction in progress	744,640	112,062
	<u>\$155,094,621</u>	<u>\$157,191,490</u>

A substantial part of the property and equipment is under long-term leases to Allied Stores Corporation or to its consolidated subsidiaries guaranteed by Allied Stores Corporation. Such leases applicable to mortgaged property are pledged as collateral for the indebtedness.

(B) Notes and bonds payable consist of: \$8,649,000 first mortgage bonds, 3½%, not assumed (\$9,141,000 for 1959); \$125,185,326 first mortgage bonds, 3½% to 5½% (\$123,509,238 for 1959); and \$2,056,015 notes payable to banks, 5% and 5½% (\$1,329,651 for 1959).

This debt matures: \$468,865 in the year ended January 31, 1961, \$4,768,367 in the year ended January 31, 1962, \$1,507,070 in the year ended January 31, 1963 and the balance 1968 to 1992. In addition, sinking fund requirements for the next five years are as follows: year ended January 31, 1961 — \$2,904,780; 1962 — \$3,067,202; 1963 — \$3,200,899; 1964 — \$3,331,306; 1965 — \$3,474,357. Notes and bonds of \$112,286,762 contain provisions for prepayment at the Corporation's option in whole or in part, \$87,806,326 of which may be prepaid with a premium, varying up to 5%.

(C) At January 31, 1960, the Corporation and its subsidiaries were lessees under eight leases expiring 1976 to 2053 with minimum rentals of \$91,600 to the year 1976, and decreasing amounts thereafter, plus real estate taxes and other expenses and, in one instance, certain contingent amounts. The Corporation and its subsidiaries were also lessees under 30 underlying leases, maturing from 1966 to 2059, with aggregate rentals of \$667,950, which are paid directly by the tenants, Allied Stores Corporation or its consolidated subsidiaries.

ACCOUNTANTS' REPORT

BOARD OF DIRECTORS,
ALSTORES REALTY CORPORATION,
NEW YORK, NEW YORK.

New York, N. Y.
April 22, 1960

We have examined the accompanying balance sheet of Alstores Realty Corporation and subsidiaries as of January 31, 1960 and 1959, and the related statement of earnings for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Alstores Realty Corporation and subsidiaries at January 31, 1960 and 1959, and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Touche, Ross, Bailey & Smart

TEN YEAR FINANCIAL POSITION

	1960	1959	1958
ALLIED STORES CORPORATION AND SUBSIDIARIES CONSOLIDATED			
Current assets	\$207,536	\$196,806	\$203,320
Current liabilities	61,571	57,821	58,731
Working capital	145,965	138,985	144,589
Investment in and advances to Alstores Realty Corporation (not consolidated)	16,358	20,775	15,486
Property and equipment (net)	62,908	61,230	61,343
Other assets	3,285	4,488	3,240
Working capital and other assets	228,516	225,478	224,658
Long-term debt	42,800	45,400	47,850
Minority interest	—	69	124
Net assets	185,716	180,009	176,684
Represented by:			
Preferred Stock — \$100 per share	23,190	23,452	24,164
Common Stock — stated at \$1 per share	2,650	2,646	2,626
Surplus	159,876	153,911	149,894
ALSTORES REALTY CORPORATION AND SUBSIDIARIES			
Property and equipment (net)	155,095	157,191	147,059
Other assets	2,989	2,820	2,292
Total assets	158,084	160,011	149,351
Long-term debt	135,890	133,980	126,923
Other liabilities	2,012	1,867	3,780
Advances from Allied Stores Corporation	15,267	19,706	14,442
Total liabilities	153,169	155,553	145,145
Stockholder's equity	4,915	4,458	4,206

— FISCAL YEARS ENDED JANUARY 31

(in thousands of dollars)

1957	1956	1955	1954	1953	1952	1951
\$208,137	\$210,174	\$183,760	\$172,733	\$173,900	\$160,874	\$152,573
59,358	60,716	53,165	49,763	51,507	45,354	48,678
148,779	149,458	130,595	122,970	122,393	115,520	103,895
9,719	2,294	4,945	7,745	5,353	8,918	6,644
62,096	51,353	44,406	43,603	39,317	40,931	40,438
3,398	3,346	2,846	2,517	2,240	2,197	1,489
223,992	206,451	182,792	176,835	169,303	167,566	152,466
50,300	37,750	39,950	39,900	37,600	39,800	29,750
130	127	122	128	126	128	—
173,562	168,574	142,720	136,807	131,577	127,638	122,716
24,806	25,685	25,596	26,096	25,123	25,743	25,607
2,622	2,612	2,217	2,196	2,196	2,196	2,108
146,134	140,277	114,907	108,515	104,258	99,699	95,001
105,157	95,671	88,705	80,897	78,008	69,279	46,690
1,424	1,310	1,116	986	1,036	879	1,055
106,581	96,981	89,821	81,883	79,044	70,158	47,745
92,331	91,592	81,652	71,320	71,606	59,573	39,704
1,847	767	1,142	1,322	943	784	719
8,477	1,070	4,444	7,262	4,889	8,473	6,218
102,655	93,429	87,238	79,904	77,438	68,830	46,641
3,926	3,552	2,583	1,979	1,606	1,328	1,104

TEN YEAR OPERATING RESULTS

RESULTS FOR YEAR

	1960	1959	1958
Net sales	\$679,488	\$643,778	\$632,814
Gross margin	234,719	217,703	213,191
Operating expenses	205,695	192,404	186,880
Earnings before federal income taxes	28,087	24,204	25,151
Consolidated net earnings	14,637	12,004	12,351

Earnings of Alstores Realty Corporation
not included above

457 252 281

Wages and salaries	118,386	110,612	108,017
Taxes — federal, state and local	28,206	24,990	25,361
Rent	16,604	15,945	14,850
Depreciation	6,761	6,512	6,096
Interest	1,903	1,939	1,882

Dividends — Preferred Stock	937	950	986
— Common Stock	7,950	7,910	7,875
Retained earnings	5,750	3,144	3,490

PER SHARE OF COMMON STOCK

Earnings	5.17	4.18	4.33
Dividends	3.00	3.00	3.00
Common stockholders' equity	61.32	59.17	58.08

OTHER STATISTICS

Number of stores	85	86	87
Number of employees	31,000	30,500	31,000

— FISCAL YEARS ENDED JANUARY 31

(in thousands of dollars)

1957	1956	1955	1954	1953	1952	1951
\$615,773	\$581,901	\$543,984	\$515,830	\$501,841	\$476,693	\$439,909
208,329	197,508	183,825	172,217	166,593	152,671	146,869
178,388	167,038	154,815	146,426	140,338	134,864	119,609
28,462	29,172	27,331	24,259	25,337	16,858	26,669
14,262	13,972	13,231	11,809	12,137	8,258	14,944

374	266	250	373	278	224	61
103,832	96,231	89,228	83,906	80,044	76,099	68,958
25,023	25,348	23,647	21,404	21,837	16,661	19,020
14,096	12,887	12,271	11,971	11,355	10,401	9,636
5,507	4,883	4,466	4,209	4,079	3,775	3,358
1,588	1,380	1,544	1,370	1,390	1,491	1,114

1,017	1,015	1,035	996	1,024	1,021	836
7,861	7,649	6,605	6,588	6,588	6,521	6,323
5,384	5,308	5,591	4,225	4,525	716	7,785

(in dollars)

5.05	5.09	5.50	4.92	5.06	3.31	6.69
3.00	3.00	3.00	3.00	3.00	3.00	3.00
56.72	54.70	52.84	50.42	48.48	46.40	46.07

84	79	75	73	72	71	73
31,000	29,600	28,900	27,800	27,100	27,200	25,500

